AUTUS

wealth care specialists

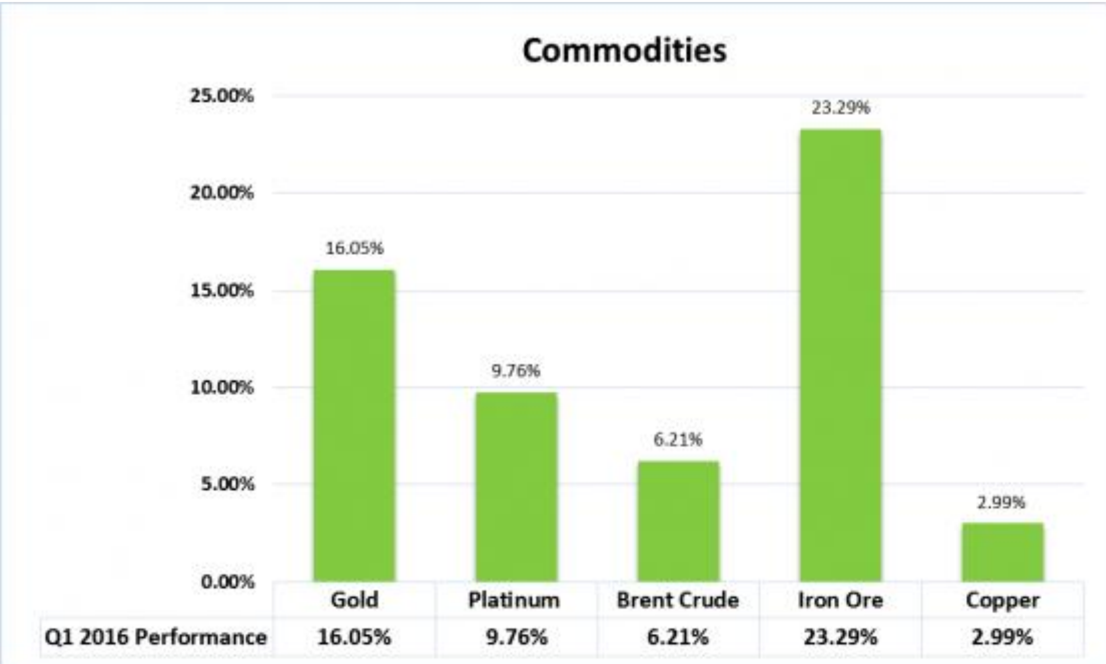
QUARTERLY ECONOMIC COMMENTARY

Q1 | 2016

AUTUS BALANCED FUND

Quarterly Commentary - Autus BCI Balanced Fund

Resources counters have had a spectacular run in the first quarter of the year, contributing in a large way to the JSE All-Share returning 3.07% for the quarter. Although there is some evidence of consolidation in the mining industry, we believe that the pace of the rally is unjustified and that share prices may have rerated too quickly. The figure below illustrates the extent to which commodity prices increased during the quarter. It is simply too early to tell where the increased demand for commodities will come from over the next decade. Prices of hard commodities such as gold and platinum are still well below their highs of the past few years, and there are no obvious signs that suggest they might return to those highs in the near future. The key to profitability for local mining houses therefore lies in the success of cost-cutting measures, along with a continuous revenue boost by a depreciating rand. These factors are closely monitored when we consider investment in resources stocks, but it is more important for us to see a sustained pick-up in the demand for actual commodities before we commit precious capital to this sector. We therefore remain heavily underweight the resource sector.



As a result of the resources sector's stellar performance, and consequently our position towards the sector, the Fund underperformed its benchmark. The Fund declined 0.27% while its benchmark returned 2.44% over the three-month period. Despite the short-term pain, we continue to favour solid businesses with a track record of earnings growth and good management teams, as opposed to speculative bets in uncertain industries.

Supporting our view, positions in Naspers, PSG and Steinhoff were increased. The latter enjoyed a very good quarter, returning 23.5% in contrast with the industrial sector coming under pressure as a whole. Rand-hedgers Anhueser-Busch and Capital & Counties are new additions to the Fund, while the position in Coronation were replaced with Anchor Capital. Standard Bank, Netcare and Zeder no longer forms part of the portfolio.

Curro forms a significant part of our direct equity exposure, and although the company released another set of good results, the share price came under severe pressure during the quarter. The share had a good run at the end of last year and another rights issue was announced; these factors may have played a part in the recent decline. We still view the company in high regard with significant long-term potential, and consequently maintain our position.

The Fund’s total equity exposure were increased slightly from 64% to 68%. The position was achieved by increasing our direct exposure from 19.1% to 26.7%, and reducing the underlying equity funds proportionately. We increased the exposure to the Autus BCI Income Plus Fund, serving as a proxy for cash at a more attractive yield.

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